Manitoba

MANITOBA DEVELOPMENT CORPORATION

Annual Report

March 2005

Growing Together in the 21st Century

Manitoba

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MANITOBA DEVELOPMENT CORPORATION

Annual Report

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MANITOBA DEVELOPMENT CORPORATION

Financial Statements
March 31, 2005

Manitoba

MINISTER OF INDUSTRY, ECONOMIC
DEVELOPMENT AND MINES

Winnipeg, Manitoba, CANADA
R3C 0V8

His Honour
The Honourable John Harvard
Lieutenant Governor of Manitoba
Room 235 Legislative Building
405 Broadway Avenue
Winnipeg MB R3C 0V8

Your Honour:

I am pleased to present the Annual Report for the Manitoba Development Corporation for the fiscal year ending March 31, 2005.

Respectfully submitted,

Jim Rondeau
Minister

Manitoba

Industry, Economic Development and Mines
Manitoba Development Corporation
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Winnipeg Manitoba CANADA
R3B 3P4

September 21, 2005

Honourable Jim Rondeau
Minister of Industry, Economic Development and Mines
Room 358 Legislative Building
Winnipeg MB R3C 0V8

Dear Minister Rondeau:

It is our pleasure to submit the Annual Report of the Manitoba Development Corporation for the fiscal year ended March 31, 2005, as required by Section 44 of the Development Corporation Act.

Respectfully submitted,

Hugh Eliasson
Chairperson

BDO Dunwoody LLP
Chartered Accountants
and Advisors
www.bdo.ca

700 - 200 Graham Avenue
Winnipeg, Manitoba Canada R3C 4L5
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Auditors' Report

To the Shareholder of
MANITOBA DEVELOPMENT CORPORATION

We have audited the balance sheet of **MANITOBA DEVELOPMENT CORPORATION** as at March 31, 2005 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Winnipeg, Manitoba
May 6, 2005

Manitoba

Manitoba Development Corporation
1040-259 Portage Avenue
Phone: 204-945-0141
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Winnipeg Manitoba CANADA
R3B 3P4

April 30, 2005

THE MANITOBA DEVELOPMENT CORPORATION
MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management and have been prepared in conformity with the generally accepted accounting principles. The statements are examined by BDO Dunwoody LLP, Chartered Accountants, whose opinion is included herein.

To fulfil this responsibility, management maintains internal control systems to provide reasonable assurance that the accounts and records accurately reflect all transactions and that appropriate policies and procedures are established and respected.

BDO Dunwoody LLP have free access to the Board of Directors, with and without management present, to discuss the results of their audit and the quality of financial reporting to the Board.

James F. Kilgour, C.A.
General Manager

Kristine Seier
Secretary-Treasurer

MANITOBA DEVELOPMENT CORPORATION
Balance Sheet

March 31	2005	2004
Assets		
Current Assets		
Cash	$ 281,115	$ 422,808
Term deposits - Province of Manitoba	3,311,883	3,242,818
Accounts receivable - other	1,809	4,567
	3,594,807	3,670,193
Assets managed for the Province of Manitoba under Part II		
Cash on hand held in trust	168,196	105,405
Loans receivable (Note 2)	65,640,459	74,398,726
Equity investments (Note 3)	4,495,828	6,140,255
	70,304,483	80,644,386
	$ 73,899,290	$ 84,314,579
Liabilities and Shareholder's Equity		
Current Liabilities		
Accounts payable - Part I	$ 317,842	$ 309,903
Funds Provided by the Province of Manitoba under Part II	70,304,483	80,644,386
	70,622,325	80,954,289
Commitments (Note 5)		
Shareholder's Equity		
Share capital - authorized and issued 100 shares at $10 per share	1,000	1,000
Retained earnings	3,275,965	3,359,290
	3,276,965	3,360,290
	$ 73,899,290	$ 84,314,579

Approved on behalf of the Board:

Director

Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
Statement of Operations and Retained Earnings

For the year ended March 31	2005	2004
Income from Part I		
Interest	$ 96,193	$ 144,446
Expenses under Part I		
Administration	56,615	117,774
Extraordinary item (Note 4)	122,903	-
	179,518	117,774
Income (loss) Part I	(83,325)	26,672
Income from Part II		
Interest - loans receivable	4,730,161	3,970,404
Pro-rata share of partnership earnings (loss)	(1,238,205)	319,575
Recovery of Part II expenses from the Province of Manitoba		
Increase (decrease) in allowance for forgiveness	(159,576)	4,123,888
Increase in provision in doubtful accounts	3,819,393	5,441,985
Increase in provision for decline in value of investments	2,092,687	223,149
Foreign currency translation loss	1,513,500	342,500
	10,757,960	14,421,501
Expenses under Part II		
Increase (decrease) in allowance for loan forgiveness	(159,576)	4,123,888
Increase in allowance for doubtful accounts	3,819,393	5,441,985
Increase in provision for decline in value of investments	2,092,687	223,149
Repayment of Part II interest on loans receivable to the Province of Manitoba	4,730,161	3,970,404
Provision for repayment to (recovery of) the Province of Manitoba pro-rata share of partnership earnings (losses)	(1,238,205)	319,575
Foreign currency translation loss	1,513,500	342,500
	10,757,960	14,421,501
Income Part II	-	-
Net income (loss) for the year	(83,325)	26,672
Retained earnings, beginning of year	3,359,290	3,332,618
Retained earnings, end of year	$ 3,275,965	$ 3,359,290

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
Statement of Cash Flows

For the year ended March 31	2005	2004
Provided by (Used in) Part I Activities		
Cash Flows from Operating Activities		
Net income (loss) for the year	$ (83,325)	$ 26,672
Changes in non-cash working capital balances		
Accounts receivable - other	2,758	53,954
Accounts payable	7,939	51,348
Net cash flow from Part I activities	(72,628)	131,974
Provided by (Used in) Part II Activities		
Cash Flows from Investing Activities		
Loans receivable		
Principal repayments	8,773,464	9,657,033
Loans issued	(4,187,544)	(23,944,208)
Increase in accrued interest receivable	(55,621)	(56,377)
Equity investments		
Investments made	(2,161,470)	(1,029,552)
	2,368,829	(15,373,104)
Increase (decrease) in cash on hand held in trust	(62,791)	526,278
Funds provided by (to) the Province of Manitoba	(2,306,038)	14,846,826
Net cash flow from Part II activities	-	-
Net increase (decrease) in cash and cash equivalents	(72,628)	131,974
Cash and cash equivalents, beginning of year	3,665,626	3,533,652
Cash and cash equivalents, end of year	$ 3,592,998	$ 3,665,626
Represented by:		
Cash on hand	$ 281,115	$ 422,808
Term deposits - Province of Manitoba	3,311,883	3,242,818
	$ 3,592,998	$ 3,665,626

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
Summary of Significant Accounting Policies

March 31, 2005

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates. The significant accounting policies used in these financial statements are as follows:

Loans Receivable Under Part II

Loans are carried at the unpaid principal plus accrued interest, less allowance for doubtful loans. Loans considered uncollectible are written-off.

Interest on loans is recorded as income on an accrual basis except for loans considered impaired. When a loan becomes impaired, recognition of interest ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

The allowance for doubtful loans is maintained at a level considered adequate to absorb credit losses existing in the portfolio. Specific allowances reduce the carrying value of loans identified as impaired to their net realizable amounts. In addition to specific allowances against identified impaired loans, the Corporation maintains a non-specific allowance to cover impairment which is inherent in the loan portfolio which is consistent with industry practice.

Equity Investments Under Part II

The Corporation's equity in investments related to share capital investments are recorded at cost. The Corporation's investments in the Vision Capital Fund, CentreStone Vision Fund, Manitoba Capital Fund, Manitoba Science and Technology Fund, Renaissance Capital Fund and Western Life Sciences Venture Fund LLP are accounted for using the equity method of accounting. These investments were originally recorded at cost and the carrying value is adjusted thereafter to include the Corporation's pro-rata share of post acquisition earnings. Such adjustments are correspondingly reflected in the balance sheet caption "Funds provided by the Province of Manitoba under Part II."

MANITOBA DEVELOPMENT CORPORATION
Summary of Significant Accounting Policies

March 31, 2005

Financial Instruments

The carrying amounts of short-term financial assets and liabilities are a reasonable estimate of the fair value because of the short-term maturity of those instruments.

The financial risk is the risk to the Corporation's Part I earnings that arise from fluctuations in interest rates and degree of volatility of these rates. Because Part II activities are directed by the Province of Manitoba, any exposure for these financial assets and liabilities to interest rate fluctuations or changes to their fair value would be borne by the Province. Credit risk relating to the realization of assets managed for the Province of Manitoba under Part II is borne by the Province.

All financial instruments are denominated in Canadian dollars.

The Corporation does not participate in derivative financial instrument trading.

Operating Losses

Losses under Part I and under Part II of the Corporation are the responsibility of the Province and are charged directly against advances received from the Province.

Cash

For the purpose of the statement of cash flows, cash includes cash and term deposits with the Province of Manitoba with maturities of up to three months.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period.

Contributed Services

During the year, the Province of Manitoba provided office space and other administrative services to the Corporation at no cost. Because of the difficulty of estimating the fair value of such expenses, no contributed services are recognized in the financial statements.

1. Nature of Operations and Economic Dependence

The Manitoba Development Corporation (The Corporation) provides loans and guarantees under Part I and Part II of the Development Corporation Act. The activities under Part I and Part II are accounted for separately. Part I activities are undertaken at the initiative of the Corporation, while Part II activities are at the direction of the Province of Manitoba.

The Corporation's lending operations under Part I were suspended effective November 15, 1977 except at the direction of the Province of Manitoba. The Corporation's lending and investment operations under Part II continue under the direction of the Province of Manitoba. The Province provides all financing for these initiatives and ultimately bears all costs, including any exposure for these financial assets to interest rate fluctuations, changes to their fair value or credit risk relating to the realization of these assets.

2. Loans Receivable Managed for the Province of Manitoba Under Part II

	2005	2004
Business Support		
Manitoba Industrial Opportunities Program		
- Repayable	$ 82,567,662	$ 89,012,973
- Forgivable	4,729,183	4,888,759
Manufacturing Adaptation Program	2,529	3,510
Canada - Manitoba Economic Development Partnership	-	446,680
	87,299,374	94,351,922
Other Loans Receivable		
Manitoba Film and Sound	13,584	140,634
Elmwood Cemetery	75,000	75,000
International Education Incentive Loan	-	22,400
	88,584	238,034
	87,387,958	94,589,956
Allowance for forgiveness	(4,729,183)	(4,888,759)
Allowance for doubtful accounts	(17,018,316)	(15,302,471)
	(21,747,499)	(20,191,230)
	$ 65,640,459	$ 74,398,726

2. Loans Receivable Managed for the Province of Manitoba Under Part II (Continued)

The Manitoba Industrial Opportunities Program provides flexible repayable financing to encourage companies to expand or locate in Manitoba. Loan principal is due as follows:

	2005	2004
2005	$ -	$ 10,424,061
2006	6,109,426	5,971,057
2007	6,432,644	6,445,819
2008	21,040,733	20,734,330
2009	5,114,898	6,918,787
2010	2,981,727	-
Subsequent to 2010	40,705,848	38,327,939
Accrued interest	182,386	190,980
	82,567,662	89,012,973
Allowance	(17,015,787)	(14,852,282)
	$ 65,551,875	$ 74,160,691

Interest rates charged for Manitoba Industrial Opportunities loans are fixed in reference to the Corporation's cost of borrowing from the Province of Manitoba at the time of the first disbursement of the loan proceeds to the debtor. In some cases, per the terms of individual loan agreements, interest rates may be adjusted during the term of the loan based on the Corporation's cost of borrowing from the province of Manitoba at a date(s) specified in the loan agreement. In certain cases, the Corporation charges interest rates which are less than its cost of borrowing to encourage investment and job creation in Manitoba. In other cases, the Corporation charges rates in excess of its cost of borrowing to reflect risk conditions. Interest rates charged on loans are as follows:

	2005	2004
Nil	$ 1,660,619	$ 1,704,175
Greater than Nil, less than 5%	30,171,231	24,898,095
5% or greater, less than 6%	24,717,471	20,789,416
6% or greater, less than 7%	21,401,797	31,476,140
7% or greater, less than 8%	4,309,158	7,829,167
8% or greater, less than 9%	-	2,000,000
9% or greater, less than 10%	125,000	125,000
Accrued interest	182,386	190,980
	82,567,662	89,012,973
Allowance	(17,015,787)	(14,852,282)
	$ 65,551,875	$ 74,160,691

When possible, the Corporation obtains various forms of security on the Manitoba Industrial Opportunities loans with priority ranking subject to any prior existing charges.

2. Loans Receivable Managed for the Province of Manitoba Under Part II (Continued)

In exchange for contractual obligations which normally commit debtor companies to create and maintain jobs, the Corporation has provided forgivable loans. A portion of these loans is normally forgiven annually subject to the Corporation's confirmation that jobs have been created and maintained. Forgivable loans together with projected timing of forgiveness are as follows:

	2005	2004
Forgivable within 1 year	$ 1,137,267	$ 1,296,843
Forgivable within 2 years	940,140	940,140
Forgivable within 3 years	940,140	940,140
Forgivable in more than 3 years	1,711,636	1,711,636
	$ 4,729,183	$ 4,888,759

During the year, an amount of $1,875,000 was transferred from forgivable to repayable loans due to debtor companies not satisfying the contractual obligations required for forgiveness.

The Corporation also manages other loan programs on behalf of the Province of Manitoba.

3. Equity Investments Managed for the Province of Manitoba Under Part II

	2005	2004
Share capital investments		
Faneuil ISG Inc.	$ 1	$ 1
Less: Allowance for forgiveness of shares	1	1
	-	-
Limited Partnership Investments		
CentreStone Vision Fund	399,000	-
Vision Capital Fund	1	1
Manitoba Capital Fund	4,363,200	4,363,200
Manitoba Science and Technology Fund	1,623,539	1,611,069
Renaissance Capital Fund	3,000,000	3,000,000
Western Life Sciences Venture Fund LLP	3,800,000	2,050,000
	13,185,740	11,024,270
Less: Provision for decline in value of investments	9,224,649	7,131,962
Pro-rata share of partnership earnings	(534,737)	(2,247,947)
	8,689,912	4,884,015
	$ 4,495,828	$ 6,140,255

3. Equity Investments Managed for the Province of Manitoba Under Part II (Continued)

On January 17, 2002, Faneuil ISG Inc. was purchased by 3863620 Canada Limited. As a result of this transaction, the Province agreed to convert its existing investment into 11,000,000 preference shares of 3863620 Canada Limited. On December 30, 2004 the rights pertaining to these shares were changed. The new rights attached to these shares are non-retractable, non-voting with no dividend rights and on the liquidation, winding up or dissolution of Faneuil the Province will participate in the assets of Faneuil pari-passu with the holders of Class A common and Class B common shares.

The investment in preference shares has been recorded in the books of the Corporation at a nominal value of $1. Any funds received upon redemption of the preference shares will accordingly result in the recognition of an equal amount of income at that time.

4. Extraordinary Item

In 2005, the Corporation was required to make a payment pursuant to the settlement of a lawsuit related to a warranty claim arising in a company it held an investment in at the time of the original warranty claim and for which it retained responsibility for after disposition of the investment.

5. Commitments

Commitments and undisbursed balances of approved loans under Part II:

	2005	2004
Manitoba Industrial Opportunities Program	**$ 13,587,568**	$ 27,257,446
Canada - Manitoba Economic Development Partnership	**-**	28,320
Manitoba Science & Technology Fund	**876,461**	888,931
CentreStone Venture Fund Limited	**4,601,000**	-
Manitoba Capital Fund	**353,334**	353,334
Western Life Sciences Venture Fund LLP	**1,200,000**	2,950,000
	$ 20,618,363	$ 31,478,031

6. Subsequent Event

On March 15, 2005, the Province of Manitoba authorized the transfer of the financial administration of the Provincial Nominee Program - Business from the Manitoba Trade and Investment Corporation to the Manitoba Development Corporation effective April 1, 2005. For the year ended March 31, 2005 revenue and expenses related to the Provincial Nominee Program - Business were $1,037,428 and $658,616 respectively. Net assets transferred were as follows:

	2005
Assets	$ 23,033,926
Liabilities	22,395,868
Net assets transferred	$ 638,058

7. Financial Instruments

The carrying amounts of Part I financial assets and liabilities are a reasonable estimate of the fair value because of the short-term maturity of those instruments. The carrying amount of Part II financial assets and liabilities approximate their fair value. In the absence of readily ascertainable market values, management has estimated that fair value would not differ materially from carrying value. Factors considered in this determination include underlying collateral, market conditions, financial data and projections of the borrowers. Because of the inherent uncertainty of valuation, the estimate of fair value may differ significantly from the values that would have been used had a ready market for the assets existed.

8. Comparative Figures

Certain of the comparative figures have been reclassified to provide better comparison with the current year's presentation. Net income for the year ended March 31, 2004 remains as previously reported.